

## Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 FEA-01 CEA-01 CIAE-00 COME-00

DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-04 ITC-01

TRSE-00 PRS-01 SP-02 OMB-01 /077 W

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P R 240746Z SEP 76

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 653

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AGENCY FOR IPS

E O 11652: N/A

TAGS: ETRD, EAGR, RP

SUBJ: SUGAR: PHILIPPINE REACTION TO INCREASE IN U.S. IMPORT DUTY

REF: A. STATE 234056; B. STATE 234812; C. MANILA 14568

D. MANILA 14670

1. SEPTEMBER 21 MANILA MORNING NEWSPAPERS CARRIED FIRST SUBSTANTIAL GOP AND PRIVATE SECTOR REACTIONS TO TRIPLING OF U.S. IMPORT DUTY ON SUGAR. BOTH GOVERNMENT AND PRIVATE VIEWS WERE CHARACTERIZED BY CAUTIOUS "WAIT AND SEE" APPROACH. MOST NEWSPAPERS HEADLINED PRESIDENT MARCOS' DIRECTIVE TO GOP AGENCIES IN MANILA AND ABROAD TO MAINTAIN A CLOSE WATCH ON THE U.S. SUGAR MARKET FOLLOWING IMPOSITION OF HIGHER DUTIES, AND NEWS ARTICLES NOTED THAT LOCAL AUTHORITIES HAVE NOT YET MADE OFFICIAL ASSESSMENTS ON EFFECT OF HIGHER DUTY ON PHILIPPINE SUGAR EXPORTS TO U.S. MEASURED STYLE OF PHILIPPINE OFFICIAL REACTION WAS ALSO EVIDENT IN FINANCE SECRETARY VIRATA'S STATEMENT THAT "WE DO NOT KNOW"

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WHAT EFFECTS THE INCREASED TARIFF WILL HAVE ON PHILIPPINE

SUGAR, BUT WE CAN SAY AT MOST THAT WE ARE WATCHING THE MOVEMENT OF THE U.S. SUGAR MARKET". VIRATA SAID ALSO THAT U.S. ACTION WAS PROTECTIVE MEASURE TO JACK UP DOMESTIC PRICES IN THE U.S. IN ORDER TO ASSIST SUGAR INDUSTRY.

2. PHILIPPINE SOURCES CITED BY NEWS STORIES MENTIONED SEVERAL FACTORS WHICH MIGHT MITIGATE EFFECT OF TARIFF ON PHILIPPINE SUGAR EXPORTS TO U.S.:

(1) PARTICIPATING CONTRACTS BETWEEN GOP SUGAR MARKETING AUTHORITY (THE PHILIPPINE EXCHANGE COMPANY, INC. OR "PHILEXCHANGE") AND THREE AMERICAN SUGAR REFINERIES (SUCREST, GREAT WESTERN AND TEXAS IMPERIAL) DETERMINE PRICES FOR A MINIMUM OF 1.35 MILLION METRIC TONS OF PHILIPPINE SUGAR SHIPPED TO THE UNITED STATES PER YEAR. (COMMENT: TERMS OF THESE CONTRACTS HAVE NOT REPEAT NOT BEEN MADE PUBLIC, BUT WE KNOW THAT THE CONTRACTS USE A COMPLEX PRICING FORMULA TO TIE THE EXPORT PRICE OF PHILIPPINE RAW SUGAR TO THE U.S. SELLING PRICE FOR REFINED SUGAR.) ONE ARTICLE QUOTED A LOCAL SOURCE AS SAYING THAT PHILEXCHANGE'S CONTRACTS WOULD NOT BE AFFECTED "AS LONG AS THE INCREASE IN DUTY IS REFLECTED IN THE INCREASE IN THE SELLING PRICE OF THE U.S. REFINED SUGAR". THE SOURCE ADDED, "AS LONG AS THE INCREASE OF THE SELLING PRICE OF REFINED SUGAR WILL NOT BE LESS THAN \$18 (PER TON), PHILIPPINE EXCHANGES' CONTRACTS WITH THE U.S. REFINERS WOULD NOT BE AFFECTED. HOWEVER, IF THIS GOES BELOW \$18, WE HAVE TO SHOULDER THE LOSSES."

(2) LOCAL INDUSTRY SOURCES ARE HOPEFUL THAT THE BULK OF THE TARIFF INCREASE WILL BE PASSED ON TO AMERICAN CONSUMERS.

(3) THERE IS SOME OPTIMISM IN THE LOCAL SUGAR INDUSTRY THAT PRICES WILL RECOVER NEXT YEAR AND THUS "SUBSTANTIALLY OFFSET" ADVERSE EFFECTS OF THE TARIFF ON THE LOCAL INDUSTRY. IN THIS CONNECTION, LOCAL OBSERVERS NOTED THAT THE TARIFF WAS "TEMPORARY" AND LIMITED OFFICIAL USE

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COULD BE LIFTED AT ANY TIME BY THE U.S. PRESIDENT.

(4) SEVERAL PAPERS POINTED OUT, ON A RATHER HOPEFUL NOTE, THAT ALTHOUGH THE U.S. CONTINUES TO IMPORT A MAJOR PORTION OF PHILIPPINE SUGAR, THE GOP HAS LATELY TAPPED NEW MARKETS.

3. EMBASSY WOULD LIKE TO EMPHASIZE THAT ALL NEWS

ARTICLES DREW HEAVILY ON USIS NEWS ITEM IN SEPTEMBER  
23 WIRELESS FILE WHICH STATED, INTER ALIA, THAT "THE  
PHILIPPINES IS EXPECTED TO BE LEFT "SUBSTANTIALY  
BETTER OFF" THAN THE...(OTHER SUPPLIERS)...AS THE  
TARIFF INCREASE WENT INTO EFFECT..." TIMELY AND PERTI-  
NENT WIRELESS FILE ARTICLE PROVIDED BY WASHINGTON AND  
RAPID DISSEMINATION BY USIS UNDOUBTEDLY PLAYED  
A KEY ROLE IN SOFTENING MEDIA (AND PERHAPS GOVERNMENT  
AND PRIVATE SECTOR) REACTION TO TARIFF INCREASE.  
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## Message Attributes

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